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C O N F I D E N T I A L SECTION 01 OF 02 RANGOON 000457

SIPDIS

STATE FOR EAP/BCLTV, EB
COMMERCE FOR ITA JEAN KELLY
TREASURY FOR OASIA
USPACOM FOR FPA

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TAGS: ENRG ECON PGOV BM

SUBJECT: HOW WILL CHEVRONTEXACO HANDLE BURMA?

REF: A. RANGOON 327
B. 03 RANGOON 574

Classified By: COM CARMEN MARTINEZ FOR REASONS 1.4 (B,D)

¶1. (C) Summary: The announcement of ChevronTexaco's pending purchase of Unocal has sparked speculation that the energy giant will sell its Burma acquisitions. Though there are strong incentives to do so, especially the possibility of a consumer boycott and other exile-led pressures, there are many financial reasons not to divest. The Unocal investment in Burma is a stable cash cow and a sale would cost millions in capital gains taxes. If ChevronTexaco does sell, it will be the end of U.S. investment in Burma. Though this would be consistent with our sanctions policy, there could be costs on the humanitarian and diplomatic fronts. End summary.

What Will Chevron Do?

¶2. (C) Unocal's Burma representative, based in Bangkok, discussed with the Chief of Mission (COM) on April 7 ChevronTexaco's planned \$16 billion buyout of the smaller energy firm. The acquisition will include Unocal's nearly 30 percent stake in the lucrative Yadana gas field, offshore in the Andaman Sea. The field, operated by France's Total, pipes more than 525 million cubic feet per day to Thailand under a "take or pay" agreement that expires in 2028. Yadana is a major money earner for the operators: cost-recovery is complete; the operating partners earn about \$500 million per year in total gross revenues; and low capital investment is required. The field is quite valuable to the GOB, which receives upwards of \$200 million per year in free cash flow.

¶3. (C) According to the Unocal rep, ChevronTexaco sent a letter to his office making it clear that the company had no intention of selling its Burma stake. However, the representative acknowledged, this attitude could easily change should ChevronTexaco begin to take heat from various Burma lobby groups. Unlike Unocal, ChevronTexaco could be particularly sensitive to divestment pressure because it has a large retail arm vulnerable to consumer boycotts. Indeed the company has already been down this road in Burma. In 1997, after the imposition of a U.S. investment ban, Texaco (before its merger with Chevron) decided to sell its controlling stake in the nearby Yetagun gas field -- now operated quite profitably by Malaysia's Petronas.

¶4. (C) Another factor that may lead ChevronTexaco to sell is the outstanding Alien Tort Claims Act (ATCA) case it faces for previous investments in Nigeria. The rep opined that ChevronTexaco may not have the stomach to take on another controversial investment, even though Unocal has already settled out of court its Burma-related ATCA case.

¶5. (C) Despite the downsides, though, the financial benefits of the Yadana field are undeniable. ChevronTexaco would be taking over a large stake in a \$1.1 billion project, exploiting a field with reserves of roughly 5.5 trillion cubic feet that is a cash cow -- generating strong revenue streams for the foreseeable future with only limited ongoing capital investment needed to maintain production as the field is gradually depleted. On top of this, the Unocal representative pointed out, divestment from Yadana would cost the investor "millions of dollars" in capital gains taxes to the GOB.

¶6. (C) If ChevronTexaco decides to divest, the question remains who would take over the stake. Chinese firms, such as CNOOC, have been very active in Burma's limited onshore oil exploration (ref A) and might be very interested in buying out ChevronTexaco. However, the Yadana gas would not be available for China's use as it is contracted to Thailand. More likely, according to the rep, the existing Yadana partners (Total, Thailand's PTT EP, and Burma's MOGE) would mop up the available shares in the field. This occurred in 2002, when UK's Premier Oil sold its majority stake in Yetagun to the field's other existing partners.

Comment: The U.S. Exits, for Better or Worse

¶7. (C) Comment: If ChevronTexaco decides to divest from Burma

it would remove the last U.S. corporate investor from Burma and basically eliminate U.S.-facilitated funds going to the country's military regime. However, the GOB's revenue from gas would not decline at all, and the windfall of capital gains tax would give a significant short-term boost to the foreign-exchange starved SPDC. The departure of a U.S. investor would also essentially put an end to corporate responsibility programs in Burma (ref B). Of the few multinationals in Burma, only Unocal has a major program outside its area of operation (with HIV/AIDS and community development programs in the central dry zone). Total does little humanitarian work outside the pipeline zone, and the other major energy investors (all Asian) do nothing at all. Finally, if the last U.S. multinational leaves Burma the embassy will lose an influential interlocutor with the GOB, one which in the past has often had better access to some decisionmakers than have we. End comment.

Martinez